



BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

DOCKETED

MAY - 1 2012

GARY PIERCE – Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

DOCKETED BY

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IN THE MATTER OF THE APPLICATION OF
KATHERINE RESORT WATER COMPANY
FOR A PERMANENT RATE INCREASE.

DOCKET NO. W-01751A-11-0331

DECISION NO. 73140

ORDER

Open Meeting
April 24 and 25, 2012
Phoenix, Arizona

BY THE COMMISSION:

On August 30, 2011, Katherine Resort Water Company (“Applicant” or “Company”) filed with the Arizona Corporation Commission (“Commission”) an application for a permanent increase in its water rates and charges.

On September 29, 2011, the Commission’s Utilities Division (“Staff”) issued a notice of insufficiency pursuant to A.A.C. R14-2-103.

In October 3, 2011, Applicant filed a request for approval of its Curtailment Tariff filed with its rate request.

On November 9, 2011, the Company provided Staff with additional documentation in support of its application.

On December 27, 2011, Staff issued a Notice of Sufficiency with respect to the Company’s application.

On February 27, 2012, Staff filed a Staff Report recommending that the rates and charges proposed by Staff be approved.

* * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1
2 1. Applicant is a wholly-owned subsidiary of a California corporation, C. Ed Schuetz
3 Development Company, Inc. ("SDC"), and pursuant to authority granted by the Commission, is
4 engaged in the business of providing public water service to a 50-lot residential subdivision
5 approximately two miles north of Bullhead City, Mohave County, Arizona.

6 2. Applicant's present rates and charges for water were approved in Decision No. 67066
7 (June 25, 2004).

8 3. On August 26, 2011, the Company provided notice to its customers of its proposed
9 rates and charges by first class U.S. mail and, in response thereto, ten customers have protested the
10 proposed rate increase.

11 4. On August 30, 2011, the Company filed an application requesting authority to increase
12 its rates and charges for water service.

13 5. On September 29, 2011, Staff issued a Notice of Insufficiency to the Company.

14 6. On December 27, 2011, Staff filed a Notice of Sufficiency concerning the Company's
15 application pursuant to A.A.C. R14-2-103.

16 7. During the test year ended December 31, 2010 ("TY"), Applicant served 49 metered
17 customers all of whom are residential users who are served by 5/8" x 3/4" meters.

18 8. Average and median water usage on the 5/8" x 3/4" meters during the TY were 3,331
19 and 1,894 gallons per month, respectively.

20 9. Staff conducted an investigation of Applicant's proposed rates and charges for water
21 service and filed its Staff Report on the Company's rate application request on February 27, 2012,
22 and recommended that the Commission issue a Decision approving Staff's proposed rates and
23 charges.

24 10. The water rates and charges for Applicant at present, as proposed in the Application
25 and as recommended by Staff are as follows:

26 ...

27 ...

28 ...

	<u>MONTHLY USAGE CHARGES:</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	
			<u>Company</u>	<u>Staff</u>
1	5/8" x 3/4" Meter	\$ 27.85	\$ 55.00	\$ 28.25
2	3/4" Meter	41.78	55.00	41.78
3	1" Meter	69.63	82.50	69.63
4	1-1/2" Meter	139.25	139.25	139.25
5	2" Meter	222.80	275.00	222.80
6	3" Meter	0.00	440.00	0.00
7	4" Meter	696.25	880.00	696.25
8	6" Meter	1,392.00	1,500.00	1,392.00

COMMODITY RATES (Per 1,000 Gallons):

9	5/8" x 3/4" Meter			
10	0 - 4,000	\$ 3.00	\$ 8.25	N/A
11	4,001 - 30,000	4.25	13.90	N/A
12	Over 30,000	4.75	20.50	N/A
13	0 - 3,000	N/A	N/A	\$ 3.50
14	3,001 - 8,000	N/A	N/A	5.40
15	Over 8,000	N/A	N/A	7.55

Service Line and Meter Installation Charges:
 (Refundable Pursuant to A.A.C. R14-2-405)

<u>Meter Size</u>	<u>-Company Proposed-</u>				<u>-Staff Recommended-</u>		
	<u>Present Rates</u>	<u>Service Line Charge</u>	<u>Meter Installation</u>	<u>TOTAL</u>	<u>Service Line Charge</u>	<u>Meter Installation</u>	<u>TOTAL</u>
16	5/8" x 3/4" Meter	\$ 420.00	N/A	\$ 450.00	\$ 334.00	\$ 116.00	\$ 450.00
17	3/4" Meter	49.00	N/A	500.00	318.00	182.00	500.00
18	1" Meter	580.00	N/A	595.00	364.00	231.00	595.00
19	1-1/2" Meter	820.00	N/A	925.00	473.00	452.00	925.00
20	2" Meter Turbine	2,140.00	N/A	2,250.00	—	—	ICB
21	3" Meter	0.00	N/A	0.00	—	—	ICB
22	4" Meter Turbine	4,105.00	N/A	4,250.00	—	—	ICB
23	6" Meter Turbine	7,590.00	N/A	7,750.00	—	—	ICB

Note - Individual Case Basis ("ICB") is used to refer to Staff's proposal to apply charges based on customer's specific cost for meters 2" and larger.

<u>SERVICE CHARGES:</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	
		<u>Company</u>	<u>Staff</u>
24	Establishment	\$ 15.00	\$ 15.00
25	Establishment (After Hours)	22.50	0.00
26	Reconnection (Delinquent)	25.00	50.00
27	Meter Test (If Correct)	15.00	25.00
28	Deposit	Per Rule	50.00
29	Deposit Interest	Per Rule	6.0%
30	Re-establishment (Within 12 Months)	Per Rule	**
31	NSF Check	\$15.00	\$15.00
32	Deferred Payment (Per Month)	1.5%	1.5%
33	Meter Re-read (If Correct)	\$5.00	\$15.00
34	Late Fee (Per Month)	1.5%	1.5%
35	After Hours Service Charge	N/A	0.00
36	(added to service charge when work is performed after regular business hours)		\$22.50

MONTHLY SERVICE CHARGE FOR FIRE SPRINKLERS:

4" or Smaller	\$ 0.00	\$ 0.00	***
6"	0.00	0.00	***
8"	0.00	0.00	***
10"	0.00	0.00	***
Larger than 10"	0.00	0.00	***

* Per Commission Rule A.A.C. R14-2-403(B).

** Number of months off system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).

*** 2.0 percent of Monthly Minimum for a comparable sized meter connection, but no less than \$10 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

11. Pursuant to the Staff Report, Applicant's fair value rate base ("FVRB") is determined to be \$20,506 which is the same as its original cost rate base. The Company's FVRB reflects a \$69,284 reduction by Staff due in large part to a \$82,559 adjustment to Applicant's accumulated depreciation and deductions due to plant advances and contributions and the amortization of Contributions in Aid of Construction ("CIAC").

12. Staff decreased Applicant's operating expenses by \$2,729 primarily due to an adjustment which reduced Applicant's repairs and maintenance expense by \$6,873 as a result of the capitalization of the cost of meters and a pump that the Company had inappropriately expensed.

13. Applicant's present water rates and charges produced adjusted operating revenues of \$19,791 and adjusted operating expenses of \$17,470, which resulted in a TY operating income of \$2,321 for an 11.32 percent rate of return.

14. The water rates and charges Applicant proposed would produce operating revenues of \$44,492 and adjusted operating expenses of \$17,738, resulting net operating income of \$26,754, or a 130.47 percent rate of return on FVRB.

15. The water rates and charges Staff recommended would produce adjusted operating revenues of \$22,175 and adjusted operating expenses of \$17,738, resulting in net operating income of \$4,437, or a 21.64 percent rate of return on FVRB.

16. Applicant's proposed rate schedule would increase the average monthly customer water bill by 118 percent, from \$37.84 to \$82.48, and the median monthly customer water bill by 110.6 percent, from \$33.53 to \$70.63.

17. Staff's recommended rates would increase the average monthly customer water bill by

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1 7.1 percent, from \$37.84 to \$40.54, and increase the median monthly customer water bill by 4.0
2 percent, from \$33.53 to \$34.88.

3 18. According to the Staff Report, the Company is failing to maintain its accounting
4 records in conformity with the National Association of Regulatory Utility Commissioners
5 ("NARUC") Uniform System of Accounts ("USOA").

6 19. Although there have been no complaints filed against the Company from 2009 through
7 the end of the TY since the filing of Applicant's request for rate relief, the Commission has received
8 ten contacts from customers of the Company who oppose the requested rate relief.

9 20. According to Staff, a check of the Compliance Section database showed that there are
10 no delinquent Commission compliance items for the Company.

11 21. The Company obtains its water by pumping water from the 900 feet deep Katherine
12 mine shaft. During Staff's review of the Company's water rate request, Staff found that the
13 Applicant "has major monitoring and reporting deficiencies" and the Arizona Department of
14 Environmental Quality ("ADEQ") cannot determine if this system is currently delivering water which
15 meets the water quality standards as required by the Safe Drinking Water Act ("SDWA").

16 22. Staff further points out that the Arizona Department of Water Resources ("ADWR")
17 has found the Company is currently not in compliance with ADWR requirements due to its failure to
18 file a 2009 Annual Water Use Report.

19 23. Staff recommends that the Commission order the following:

- 20
- 21 • that the permanent rates and charges as authorized hereinafter shall not become
22 effective until the first day of the month after the Company files with the
Commission's Docket Control, as a compliance item in this docket, a notice from
ADEQ that the Company is delivering water which meets the water quality
standards required by the SDWA;
 - 23 • that the Company file, within 90 days of the effective date of this Decision, with
24 the Commission's Docket Control, as a compliance item in this docket, (1)
documentation showing that the minor operational and maintenance corrections
25 have been made, (2) ADEQ documentation showing that all ADEQ monitoring
and reporting requirements have been met, and (3) ADEQ documentation showing
26 that the Company's water system is delivering water that meets the water quality
standards required by the SDWA;
 - 27 • that the Company file, within 90 days of the effective date of this Decision, with
28 the Commission's Docket Control, as a compliance item in this docket, ADWR
documentation showing compliance with ADWR requirements;

- that the Company file, within 45 days of the effective date of this Decision, with the Commission's Docket Control, as a compliance item in this docket, a Curtailment Tariff and a Cross Connection or Backflow Prevention Tariff;
- that the Company notify its customers of the approved water rates and charges and of their effective date by means of an insert in the monthly billing which precedes the month in which they become effective and file a copy of the notice sent to its customers with the Commission's Docket Control, as a compliance item in this docket;
- that the Company file, within 30 days of the effective date of this Decision, with the Commission's Docket Control, a copy of the schedule of its approved rates and charges;
- that the Company maintain its books and records in accordance with the NARUC USOA;
- that the Company file, within 90 days of the effective date of this Decision, with the Commission's Docket Control, as a compliance item in this docket, at least three BMPs (they are available on the Commission's website) in the form of tariffs that substantially conform to the templates created by Staff for the Commission's review and consideration;
- that the Company post a sign at its well and tank site which complies with ADEQ requirements and include the following information on the sign: system name; system PWS identification number; and emergency contact phone number(s); and
- that the Company adopt Staff's recommended depreciation rates as shown on Table B of the Engineering Report attached to the Staff Report.

24. Because an allowance for property tax expense of Applicant is included in the Company's rates and will be collected from its customers, the Commission seeks assurances from the Company that any taxes collected from ratepayers have been remitted to the appropriate taxing authority. It has come to the Commission's attention that a number of water companies have been unwilling or unable to fulfill their obligations to pay the taxes that were collected from ratepayers, some for as many as 20 years. It is reasonable, therefore, that as a preventive measure, the Company shall annually file, as part of its Annual Report, an affidavit with the Utilities Division attesting that the Company is current in paying its property taxes in Arizona.

25. Following a review of the application and the Staff Report, we believe that Staff's proposed rates and charges are reasonable and should be adopted, together with Staff's additional recommendations.

CONCLUSIONS OF LAW

1. Applicant is a public service corporation within the meaning of Article XV of the

1 Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

2 2. The Commission has jurisdiction over Applicant and the subject matter of the
3 application.

4 3. Notice of the application was provided in the manner prescribed by law.

5 4. Under the circumstances discussed herein, the rates and charges proposed by Staff and
6 authorized hereinafter are just and reasonable.

7 5. Staff's recommendations, as set forth in Findings of Fact No. 23, are reasonable and
8 should be adopted.

9 ORDER

10 IT IS THEREFORE ORDERED that Katherine Resort Water Company is hereby directed to
11 file, with Docket Control, as a compliance item in this docket, on or before on or before May 1, 2012,
12 revised rates schedule setting forth the following rates and charges:

13 MONTHLY USAGE CHARGES:

14 5/8" x 3/4" Meter	\$ 28.25
3/4" Meter	41.78
15 1" Meter	69.63
1-1/2" Meter	139.25
16 2" Meter	222.80
4" Meter	696.25
17 6" Meter	1,392.00

18 COMMODITY RATES (Per 1,000 Gallons):

19 5/8" x 3/4" Meter	
0 - 3,000	\$ 3.50
3,001 - 8,000	5.40
20 Over 8,000	7.55

21 Service Line and Meter Installation Charges: (Refundable Pursuant to A.A.C. R14-2-405)

	Service Line Charge	Meter Installation	TOTAL
23 5/8" x 3/4" Meter	\$ 334.00	\$ 116.00	\$ 450.00
3/4" Meter	318.00	182.00	500.00
24 1" Meter	364.00	231.00	595.00
1-1/2" Meter	473.00	452.00	925.00
25 2" Meter Turbine	—	—	ICB
3" Meter	—	—	ICB
26 4" Meter Turbine	—	—	ICB
6" Meter Turbine	—	—	ICB

27 Note - Individual Case Basis ("ICB") apply charges based on customer's specific cost for
28 meters 2" and larger.

SERVICE CHARGES:

Establishment	\$ 15.00
Reconnection (Delinquent)	25.00
Meter Test (If Correct)	15.00
Deposit	*
Deposit Interest	*
Re-establishment (Within 12 Months)	**
NSF Check	\$15.00
Deferred Payment (Per Month)	1.5%
Meter Re-read (If Correct)	\$5.00
Late Fee (Per Month)	1.5%
After Hours Service Charge	\$22.50
(added to service charge when work is performed after regular business hours)	

MONTHLY SERVICE CHARGE FOR FIRE SPRINKLERS:

4" or Smaller	***
6"	***
8"	***
10"	***
Larger than 10"	***

* Per Commission Rule A.A.C. R14-2-403(B).

** Number of months off system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).

*** 2.0 percent of Monthly Minimum for a comparable sized meter connection, but no less than \$10 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

IT IS FURTHER ORDERED that the above rates and charges shall not become effective for Katherine Resort Water Company until it has met all compliance requirements as set forth in Findings of Fact No. 23.

IT IS FURTHER ORDERED that Katherine Resort Water Company shall notify its customers of the rates and charges authorized hereinafter and the effective date of same by means of an insert, in a form acceptable to Staff, in the regular monthly billing which precedes that month in which the rates are to become effective and file copies of the notice when sent to its customers with the Commission's Docket Control, as a compliance item in this docket.

IT IS FURTHER ORDERED that Katherine Resort Water Company shall comply with each of the recommendations which appear in Findings of Fact No. 23.

IT IS FURTHER ORDERED that Katherine Resort Water Company shall maintain its books and records in compliance with the NARUC USOA.

IT IS FURTHER ORDERED that Katherine Resort Water Company, in addition to the

collection of its regular rates and charges, shall collect from its customers their proportionate share of any privilege, sales or use tax as provided in A.A.C. R14-2-409(D).

IT IS FURTHER ORDERED that Katherine Resort Water Company shall annually file as part of its Annual Report, an affidavit with the Utilities Division attesting that the Company is current in paying its property taxes in Arizona.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

CHAIRMAN

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 15th day of MAY, 2012.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

MES:db

1 SERVICE LIST FOR: KATHERINE RESORT WATER COMPANY

2 DOCKET NO.: W-01751A-11-0331

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